

CONSIDERATIONS

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ON THE

ANNUAL MILLION BILL,

AND ON THE

REAL AND IMAGINARY PROPERTIES

OF A

SINKING FUND.

England - Parliament - Bills - II

[3 April 1786.]

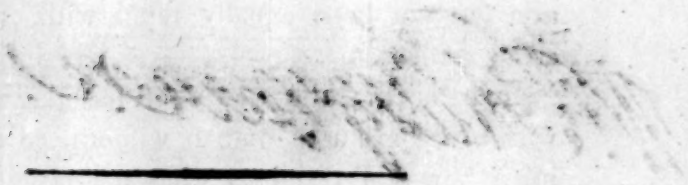
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W. E. Musgrave.



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**I** SHALL not trouble the reader with any apology for writing on a subject that has lately undergone such variety of discussion: so long as the funds shall exist, the subject will not cease to be interesting; and what is here said will at least have brevity to recommend it; an encouragement which modern book-makers do not always hold out to a reader.

The nation has long been accustomed to hearing complaints and apprehensions of our enormous debts and taxes, even at times when they were trifling compared to what they now are: nevertheless, contrary to all reasonable expectation, the public credit has kept up: whence people are led to imagine all former fears were groundless, and, trusting that our resources are inexhaustible, to discard all apprehensions for the future; not considering that the increase of property and money in the na-

tion has not been equally rapid with the increase of debt.

It is not in the power of speculation, or within the reach of human wisdom, to determine how long, and to what magnitude, the debts of a nation may be extended, where the interest due to the creditors, with the expence of a peace establishment, exceeds the amount of the revenue, and recourse is perpetually had to the faith of the public for fresh loans to make up deficiencies. Certainly such a system cannot be expected to endure for a long time, without either taxing the funds, or, which is the same thing, lowering the interest in a certain proportion; or some compounding measure between the creditors and government.

That such is our situation at present, I will not insist upon: such, however, since the close of the late war, has been our situation; and I sincerely wish it were in the power of any of the most strenuous assertors of the public prosperity to make appear we are not still very near it.

The plan held out in the late bill for reducing the national debt, proposes a million annually to be appropriated to the purchasing of stock. If such a surplus is realized, the method of disposal is advantageous; but, unfortunately, the surplus is calculated to arise, not  
from



from what the revenue exceeds the present expenditure, but from what it is said the excess will be some years hence. This, I am afraid, is supposing more than any experience has warranted: it is taking for granted, that whatever may now be the case, the time is to arrive when the expenditure shall be confined within its proper limits, and when there shall be no more extravagance or mismanagement.

If seven or eight years are to pass by, after a war, before the expences of a nation can be reduced to the regular peace establishment, and before the proposed surplus of revenue is to commence, it can be no discredit to the wisdom of any man, that he distrusts the benefit of such distant œconomy.

Of our ability to establish a surplus of much more than a million per annum, in time of peace, there can be little doubt; and if the ministry heartily set about it, by œconomy as well as by taxes, it is to be hoped no impediment will be thrown in their way; and that the leisure afforded by peace will not be lost to the public: for, should no progress be made in lessening our debt during the peace, who will be found hardy enough, when another war breaks out, to risk their money on government credit?

If the surplus should fall short, to apply a

million annually in purchasing stock, money must be borrowed. The benefit or loss attending such a measure, will almost wholly depend upon the fluctuation in the price of stocks.

Dr. Price and others, in describing the nature of a sinking fund, have asserted, and endeavoured to prove, that it is practicable to borrow money at simple interest, whilst, by means of a sinking fund, they can pay at compound interest: and so far has this doctrine obtained credit, that it has been advanced the nation might safely continue to run in debt for ever, provided there was a regular application of only a few hundred thousand pounds per annum as a sinking fund.

The Doctor, in his Appeal to the Public, puts the following case, " Let a state be supposed to run in debt two millions annually, for which it pays 4 per cent. interest: in 70 years a debt of 140 millions would be incurred: but an appropriation of £. 400,000 per annum, employed in manner of a sinking fund, at compound interest, would, at the end of this term, leave the nation beforehand 6 millions."

If this were true, it follows that two millions might be annually borrowed at 4 per cent. of which £. 1,600,000 might be yearly expended  
without

without incurring any more debt than would be paid by a regular appropriation of the remaining £. 400,000. But if the interest of such an annual loan is paid by new annual taxes, those taxes would, in a small number of years, exceed the loan itself; and the tax for the last year only, on account of such a loan, would amount to £. 5,600,000, that is, £. 3,600,000 more than the two millions borrowed: so that in this instance the debt, which is said to be redeemed by the appropriation of the annual £. 400,000 sinking fund, is redeemed wholly by the taxes. For, supposing only £. 1,600,000 borrowed annually and expended, and the £. 400,000 remaining to be entirely out of the question; the taxes necessary in the former instance would equally the same have discharged the debt.

All money lent or borrowed may be reckoned at simple interest from the time of the loan till the day the first payment of interest becomes due. If then, and at future stipulated times, the payment of the interest cannot be delayed or evaded, the debt acts with all the effect of compound interest; as either the money that pays the interest is prevented from decreasing the capital, or perhaps, to pay the interest, a fresh debt must be incurred, which likewise bears interest.

Suppose

Suppose government could borrow a million at 5 per cent. per annum, and not be called upon for the interest for a number of years, say 10; if the creditors, at the end of ten years, will be satisfied with ten times £. 50,000 as the interest of their money, this may be called a loan at simple interest.

From arguments not founded on true arithmetical principles, Dr. Price lays down, as evident, the following maxim—that “a state may, without difficulty, redeem all its debts by borrowing money for that purpose, at an equal or even any higher interest than the debts bear; and without providing any other funds than such *small* ones as shall from year to year be necessary to pay the interest of the sums borrowed\*.”

In this position the Doctor has not attributed the effect to the real cause: the loan is supposed to do that which is done only by the *small* annual funds provided to pay the interest of the sums borrowed. Many instances are given, to prove what is said to be evident; but in every one it will, on examination, appear, that borrowing answers no other purpose than to entangle and perplex; and that the redemptions could have been effected only by the taxes supposed necessary for

\* Appeal to the Public.

the loan. Of several examples, I have taken the following: " Suppose our parliament, 56 years ago, had resolved to borrow half a million annually, for the purpose of redeeming the debts of the kingdom. The *National Gain*, supposing the money applied, without interruption, to the redemption of debts bearing 4 per cent. interest, would have been a hundred millions, being debt redeemed, or the sum nearly to which an annuity of half a million will accumulate in 56 years.—On the other hand. The *National Loss* would have been twenty-eight millions, being debt incurred, or the sum of all the loans.—The balance, therefore, in favour of the nation, would have been 72 millions." In a note at the bottom, the Doctor adds, " It seems to me scarcely proper to take into this account, the produce of the taxes laid to pay the interest of the debts contracted from year to year. Let this, however, be charged.—The produce of the taxes laid to pay the interest of the first half million, will be \* 55 times £. 20,000, or £. 1,100,000. For the 2d, 3d, 4th, &c. half millions, the payment of taxes will be 54, 53, 52, &c. times £. 20,000. And

\* It should have been 56 times, and for the 2d half million 55 times £. 20,000, &c.

" the



“ the sum of all these payments will be  
 “ £. 30,800,000. Add this sum to 28 millions;  
 “ and £. 58,800,000 will be the whole national  
 “ loss; which, deducted from £. 99,902,770  
 “ (the exact national gain) leaves £. 41,102,770,  
 “ the balance in favour of the public.”

By the foregoing calculation Dr. Price makes the nation, in consequence of the loan, a clear gainer of 41 millions, and that 72 millions of debt would be cleared.

The redeemed annuities he reckons (and rightly) at compound interest; but the taxes paid annually on account of the loan, he values only at 31 millions, which is the sum total of the taxes, without any allowance of interest. The benefit of borrowing is asserted in consequence of this omission; and herein consists the mistake: for it will be found, that the same taxes, applied as a sinking fund, would, without the help of a loan, have produced exactly the effect described above; that is, of clearing 72 millions of debt. For, the taxes necessary for the 1st year's interest would have been £. 20,000, and for the last £. 1,120,000, being the interest of 56 half millions at 4 per cent. Now £. 20,000 of the national debt, at 4 per cent. paid 55 years ago, would have made the debt at present £. 172,926 less, by a proper application of the  
 interests



interests saved. The tax necessary for the 2d year's interest would have been £.40,000, which, paid 54 years ago, would have made a reduction, by the same management, of £.332,550 at this time; and, by continuing the calculation, it will appear that the annual loan of half a million may be entirely left out of the plan, without altering the effect. The evident inference is, that if the payments made by the nation have the effect of compound interest, the sums borrowed will likewise act in the same manner; and, that borrowing to pay is, in the instance just recited, only creating unnecessary perplexities, and incurring useless charges of management.

Nor can borrowing money and paying money on the same terms, by any just mode of arithmetical reasoning, be found to have any other consequence: for the simple fact is, that the whole of the national debt acts at compound interest—whatever is employed to pay any part off, acts at compound interest—and likewise, whatever is borrowed, whether for the purposes of a sinking fund, or any other purpose, acts at compound interest: in short, every increase and decrease, alike act at compound interest.

I have been at this pains chiefly to prove,

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that

that to create new debts, merely for the purpose of paying old debts, where no reduction of interest is obtained, is inefficacious, and of no use. So mistaken an idea, as that of money borrowed acting at simple interest, whilst a sinking fund acts at compound interest, might be no small encouragement to extravagance; as it supposes a sinking fund capable of redeeming any new debt at much less expence than it was contracted.

To pay old debts by contracting new, can only be done with advantage, where the money borrowed bears a lower rate of interest, than the debt it is to pay.

In other instances Dr. Price appears to have bewildered himself in his calculations. By what he says respecting reduction of interest, I do not well comprehend whether he means to prove it of no advantage. Certainly his arguments have been so understood by many. On a plan of an annual saving or surplus properly applied, he says, it deserves particular attention, that it will be of *less importance* to a state what interest it is obliged to give for money: for the higher the interest, the sooner will such a fund pay off the principal.

“ Thus, 100 millions, borrowed at 3 per cent, and bearing an annual interest of 8 millions,

“ lions, would be paid off, by a fund producing  
 “ annually £. 100,000, in 56 years; that is, in  
 “ 38 years less time than if the same money  
 “ had been borrowed at 4 per cent \*.”

By this it can scarcely be meant, that it is of little importance, whether 8 per cent. or 4 per cent. is given for 100 millions, the contrary being so very evident: for, if such a sum was borrowed at 8 per cent. an annual fund of £. 8,100,000 would, besides paying the interest, only afford a surplus of £. 100,000; but if at 4 per cent. the same fund would pay the interest, and give £. 4,100,000 surplus. Again: If a fund of 7 per cent. is raised, for the purpose of paying the interest and reducing the capital of a debt bearing 6 per cent. interest, it would discharge the principal in  $33\frac{1}{2}$  years: lower the interest to 5 per cent. the same fund will discharge the principal in 26 years: and if the interest is lowered to 4 per cent. the principal will be paid off in less than 22 years.

But supposing, when the interest is lowered, that the fund allotted for its payment is lowered likewise, a consequence by no means of necessity, still there would be gained the advantage of the public burthens being lessened;

\* Price on Reversionary Payments, chap. 3.

which, surely, may be reckoned a matter of some importance.

The Doctor, however, adds, that reduction of interest may prove hurtful, by furnishing funds for further debts, and supplying deficiencies occasioned by profusion, &c. The same may be said of every surplus, and, if allowed, would make an argument against every increase of revenue. Let us suppose the interest of our present debt could be lowered one per cent. it is possible we should, in consequence, grow more remiss in our exertions; yet it cannot be denied that such a reduction would at least put it in our power to make a rapid progress in the discharge of the principal. On the other hand, if the interests of all the sums now owing were raised up to the terms of the original bargains, it would be utterly out of our ability to lessen a penny of the principal, or to prevent its increase. Certainly, not to reduce the interest of our debts, when proper opportunities offer, is neglecting the means of good when in our reach.

As to the management described by Dr. Price, as so contrived that war would accelerate the redemption of the public debts, and the more, the longer it lasted\*; I confess not

\* Price on Reversionary Payments, p. 204, 4th edition.  
clearly

clearly to understand his arguments; neither have I much faith in such management.

Finance is so connected with numbers, that it might have been expected to afford no hook whereon to hang doubtful positions: it has, however, not escaped being entangled and obscured by strange paradoxes and mistaken hypotheses; the common fate of almost every topic on which more than one book has been written. Among other new and extraordinary opinions, it has been argued, that the national debt is a great benefit to the kingdom; and some calculators, in reckoning the amount of national property, add to the value of the land, houses, specie, goods, &c. the whole of our debt, as so much gain. Another author on finance asserts, that, before public credit is carried to too great a height, war, maintained by national loans and taxes, may be accounted an advantage to the state. "It is of service to the poor," he says, "because the price of their labour increases with the demand for labourers. It is of use to the rich, for the greater occasion there is for money, the greater is the profit of those who have money to lay out." Thus a modern author attempts to prove, that war, independent of the cause or end proposed, may be beneficial and desirable. Of the poor who are thus said to be benefited, a great part are forced  
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into the service of the navy, or inveigled into the army; where, for one that becomes richer, twenty perish or are crippled; and for one that becomes honefter, twenty, at least, are rendered more dissolute. As to the labourers who share no part of the danger, many of them, in common with those who surmount the dangers, are, at the close of a war, left destitute of employment. Nor can it be reckoned an advantage to the state, that the rich shall have opportunities of making themselves still richer, by extortionate loans.

To return to the surplus bill.—Parliament has engaged to apply a million annually to redemption of debts. If there is no surplus, either the plan must drop to the ground, or the million must be raised by new taxes, or by a new loan. If the latter should ever be intended, what I have already said, may be sufficient to prove, that such a measure would not be attended with advantage. However, let us examine it more closely.

When the 3 per cents. were at 78, the 4 per cents. were at 99; suppose them, for the sake of even numbers, to rise till the 4 per cents. should be a fraction above par, and the 3 per cents. 79, and that they should continue at that price. Government could then get money at 4 per cent. A million so raised, applied in redeeming



deeming 4 per cents. is doing nothing; if applied in purchasing 3 per cents. the account will stand as follows :

GAIN.		LOSS.	
Redeemed Capital 3 per cents.	Redeemed Annuity.	Capital increased 4 per cents.	New Annuity incurred.
By 1 million borrowed at 4 per cent. to purchase 3 per cents. at 79.	— 37,975	— 1,000,000	— 40,000
Second Year.			
Loan — 1,000,000	{ Annuity re- deemed. New Annuity incurred.		
Add — 37,975			
Deduct 40,000			
Remains 997,975	{ To purchase 3 per cents. }	1,000,000	40,000
Effect of the first 2 years —		2,000,000	80,000

In this calculation the most favourable terms have been supposed for government, and nothing charged for brokerage or management. The balance gives an advantage of £. 529,083 nominal capital redeemed; for which the public burthens are increased with an additional perpetual annuity of £. 4,127. It is to be noticed, that the 2d year's million is not so productive as the first; and likewise, that every future year the redemptions would decrease, whilst the new loan, and annuity incurred, would advance with unaltered pace.

But if taxes were raised to pay the interests of the new loan, and the redeemed 3 per cents given to the sinking fund, still the advantage would not be equal to what might be gained by the application of the same taxes without any money borrowed, and especially if the taxes were applied to the payment of 4 per cents.

This may be seen by the following comparison of the effect which might be produced by each method in 10 years.

1st. By

1st. By an annual million loan, the interests being paid by new taxes.

Annual million sinking fund	£.	
would redeem, in 10 years,	15,627,400*	Annuity redeemed 468,822
of 3 per cents. at 79 —	—	
Against which set off the new	10,000,000.	New annuity incurred 400,000
loan — — —	—	

Gross capital lessened —	5,627,400	Annuity lessened — 68,822
2d. By the same taxes, without any loan, applied to the payment of 4 per		
cents. there would be redeemed,	0	

Capital 2,486,330, and annuity 99,453.

\* As by a loan, the stock may be purchased at the beginning of each year, whilst the taxes for paying the interests of a loan are not applied before the end of a year; to bring the result of each method to the end of the 10th year, I have increased the sum of the 3 per cents. purchased at the beginning of each year, by the quantity of the same stock which the total of the annuities saved at the end of the 10th year (£. 451,670) would have purchased.

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Here

Here the loan, applied to the purchase of 3 per cents. reduces £. 3,141,070 of the gross amount of the capital more than is reduced by the simple application of the taxes; but the redeemed annuities are not so much by £. 30,631.

A sinking fund, supported by an annual loan, can have no effect, unless the interests of the loan are provided for by taxes; but, besides that the debt might be better lessened by a proper application of the same taxes, without any loan (as has been already shewn); such a plan requires taxes continually increasing, and fresh burthens annually added to the old: which is beginning at the wrong end.

To say, "Be of good cheer, for the worst is to come; pay only £. 40,000 this year, and you shall pay twice as much the next, and three times as much the year after, &c." this is not much encouragement. If a debt is to be reduced by taxes, subject to annual variation, it would have a more promising appearance to begin with the greatest payment, and gradually lessen, till you end with the least. This mode requires most vigour in the outset, but, in return, gives an immediate prospect of better days, and with the same sums would redeem a larger portion of our debt.

The different effect this method would have, is obvious; for, suppose the taxes necessary to  
pay

pay the interest of an annual loan of a million, for 10 years, at 4 per cent. were applied as a sinking fund, the first year's tax would be £. 40,000, the second year's £. 80,000; and, thus increasing £. 40,000 every year, the last year's tax would be £. 400,000. Invert the order of these taxes, beginning with the £. 400,000 and ending with the £. 40,000; here the greatest sums would have the longest time to act, and consequently be more productive.

Money borrowed at 4 per cent. to buy up 3 per cents. at any price above 75, must be attended with a loss of interest, and will increase the real burthens of the public, for the sake of decreasing a nominal capital. Converting 100 millions of 3 per cents. into 79 millions of 4 per cents. would increase the annuities paid to the public creditors £. 160,000. To load the public with such an additional perpetual annuity, for no other purpose than lessening the nominal capital 21 millions, would be disposing for ever of a fund, which, by a different application, might, in no great number of years, redeem the 21 millions capital, with its real interest.

To lessen the capital is doubtless an object of consequence: but too high an idea of the advantages attending such a reduction may lead into improvident measures.



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The plan proposed in the House of Lords, by Earl Stanhope, to decrease the capital by inviting the 3 per cent. stockholders to subscribe their consent to accept of 90 pounds for every hundred of their present capital, whenever the public shall be desirous of redeeming the said capital at such price, and, in return, to give their stock the preference of redemption, would, I apprehend, be subjecting the public to great inconvenience, for a very remote and almost hopeless chance of benefit. For,

First, If the 3 per cents. should never rise to above 90, government would be fettered, and never reap any advantage in return.

Secondly, The money to be employed in reducing the debt, by being confined to the redemption of the new subscribed 3 per cents. might enable those stockholders to raise their stock to an unreasonable price.

Thirdly, Should the 3 per cents. get up to more than 90, still it would be a loss to the public to be obliged to pay off the 3 per cents. at that price, whilst any debt, bearing above  $3\frac{1}{2}$  per cent. interest, remained.

By this plan the restraint on the public would be immediate and constant, and probably the time might never arrive when the stockholder should be called upon to perform his engagement. There is little doubt that the proprie-

tors of 3 per cents. when they comprehended the plan, would readily subscribe; but that is far from being a proof that the plan is in favour of the public.

I agree with Dr. Price, and believe almost every considerate man will think the same; as to the ill policy of borrowing, by creating an addition to the capital more than the sum received, when it might have been avoided by giving, nominally, but not in reality, higher interest; and would have been less disadvantageous though such good bargains as Dr. Price supposes might not have been obtained. In funding the last debts at 5 per cent. much of this disadvantage was avoided; but a new one incurred, by making the debt irredeemable and irreducible till 25 millions of the old debt should be paid. Instead of which, it were to be wished, that the limitation had been for a specified number of years, and the liberty of redemption made less dependent upon accident.

This restriction on the 5 per cents. is one reason in favour of redeeming the 3 per cents. in preference to the 4 per cents. as 25 millions of 3 per cents. may be sooner paid than the same quantity of any other stock; and the 5 per cents. thereby sooner rendered redeemable. But were it not for the prospect of being entitled to lower the 5 per cents. more solid advantages

vantages would be realized by paying the 4 per cents. though at par, than by redeeming 3 per cents at 78; for greater annuities would fall in every year, and the sinking fund would increase faster.

This difference, in favour of paying or redeeming 4 per cents. arises from the 4 per cents. being proportionably cheaper than the 3 per cents, and yielding to the purchaser higher interest for his money\*; which is occasioned by the apprehension that at some future period, when money can be procured on lower terms, the interest of the 4 per cents. may be reduced: and this consideration will probably prevent the 4 per cents. or indeed any redeemable annuities, from ever rising much above par; for, suppose the market price of any redeemable stock were 105, it would be in the power of government to raise money by issuing out new stock of the same kind at 104, and paying off the old stock at par. The standard rate of interest, therefore, will, in general, be more justly estimated from the price of the 3 per cents. than of any other stock; they being the most stable and unchangeable, and the only

\* The prices of stocks have lately been considerably more in favour of redeeming 4 per cents, than what I have stated; partly perhaps in consequence of the purchases on account of government.

stock which has not hitherto experienced reduction of interest.

In redeeming the public debts, no great allowances ought to be made for probabilities of future rise or fall in the price of stocks. The best judgment is as likely to be deceived as any other, except where advantage may be taken (not a fair one) of receiving earlier intelligence than the public of such events as may affect the funds. The price of the day is that which is most generally imagined will be the price hereafter; for, if there was a strong and general belief that the price of stocks would next year, or any future year, be 10 per cent higher than now, such a persuasion would immediately raise the present price to nearly, if not quite, what they were expected to rise at hereafter. Should there happen any considerable rise in the stocks, perhaps most gain would accrue in consequence of having previously bought up 3 per cents: but, merely on this supposition, to purchase 3 per cents. in preference to 4 per cents. would be giving up a certain benefit on speculation, which, if the stocks should fall, would turn out the contrary way. The terms of the 5 per cents. however, is a sufficient consideration for employing money at present in redeeming that stock which bears the lowest price.

I will beg the reader's attention to a few words



words more on the subject of a sinking fund unalienable, at the same time that the expences of the state are partly supported by new loans.

The progress made in the redemption of our debts, by a sinking fund, depends on the revenue being raised so high as to answer, 1st. the common exigencies of the state; 2d. the interest of all the debts; and, 3d. the sum a sinking fund is supposed to apply annually towards diminishing the principal. Thus, suppose the current service of the nation to be  $5\frac{1}{2}$  millions—the interest due to the public creditors  $9\frac{1}{2}$  millions—and the revenue 16 millions, affording 1 million annual surplus, which is to be applied as an unalienable sinking fund—in 40 years, if interest was at 4 per cent. 95 millions would be paid, and £. 3,800,000 annuities redeemed; the payment to be made by the sinking fund for the next year would be £. 4,800,000. But if, in this 40 years, unforeseen events should have made new loans necessary, to the amount of 95 millions, and, as this money is borrowed, new funds are provided for paying the interests, which, if at 4 per cent. is £. 3,800,000 per annum; the debt, at the end of 40 years, will be the same as at the beginning: and the efficacy of the sinking fund will rest upon what is called an *improved revenue*; that is, upon the public being burthened with supplying a revenue to government



increased £. 3,800,000 more than at the beginning: for the revenue, at the end of 40 years, must be £. 49,800,000; that is,

	£.
To answer the current service —	5,500,000
For paying the interests of unre- deemed debts — —	5,700,000
For annual surplus for the sinking fund — — —	1,000,000
For redeemed annuities to be given to the sinking fund — —	3,800,000
For paying the interest of new debts	3,800,000
<hr/>	
Total	£. 19,800,000

This statement will prove that a sinking fund, without œconomy, is no ease to a nation; and that the most rigid unalienation cannot at all keep off the weight of new loans: for, in the foregoing instance, however much the annual produce of the sinking fund has increased at the end of 40 years, yet, balancing the new loans with the sinking fund, the whole gain is taxes additional, to the amount of £. 3,800,000 per annum. Take away those taxes, and the debt would be in the same state as at the outset.

That every new loan should have new funds to pay the interest, is universally agreed; and

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those funds ought to be sufficient, not only to pay the interest of the sums borrowed, but to afford a small surplus; by which the new debts would be immediately put on terms of redemption.

Should new loans increase faster than taxes can be provided to satisfy the interests, no sinking fund could be of service; but the debt must increase as long as any one could be found to trust.

Almost all writers on the funds, who have proposed schemes for reducing the national debt, are the declared advocates for increase of taxes. True it is, that without heavy ones nothing can be done in the way of redemption. But, seeing how greatly our burthens may be increased by new loans, notwithstanding the most faithful appropriation of a sinking fund, it is most of all important to avoid, if possible, creating any necessity for borrowing. If we must borrow, it is no bad proviso, in the annual million bill, which empowers the commissioners of the sinking fund to subscribe to new loans; as it secures to the sinking fund the interest of the money taken from it; and, by lessening the sum to be raised, may enable government to procure money on more reasonable terms than otherwise. But let us hope that public credit will be allowed time to recover breath. Every new  
loan

loan\* may be considered as a step towards insolvency: if we borrow without necessity, it argues waste or mismanagement; and if with necessity, it is a certain sign that our expences exceed our income.

A minister who is a real œconomist, is the truest friend to his country; and though, in an age so dissipated, a rigid œconomist might not on all hands meet with applause and gratitude, yet, what to a good man is better, he would be conscious of having deserved it.

To reduce our debts, a clear surplus or excess of the revenue above the expenditure, must be provided. Such a surplus can only be created two ways—by taxes, or by savings; methods which merit very different degrees of praise, yet both almost equally necessary, as the produce of either singly can have but little effect.

Taxes, however, there is not much occasion to recommend, as little reason has been given lately to complain of want of attention on that score: yet, with a certainty of a frugal application, more heavy taxes than those we at present labour under, might be borne with cheerfulness. On the subject of savings, I shall only take notice of one article, which, though it has

\* Such loans excepted as are procured at a low interest, for the sole purpose of redeeming debts that bear higher interest.

frequently been mentioned, does not appear to have obtained all the attention which the importance of the subject merits.

Among the greatest monuments of our public extravagance, may be reckoned the fortress of Gibraltar. Few people have a just idea of the expence we have been at in keeping this truly barren rock. In kingdoms, that greatness and glory which are not connected with security and happiness, should be considered as unnatural tumours, the effects of pride. The reputation we gained by the defence of Gibraltar, in being able to retain it against the united efforts of France and Spain, is one of the most popular reasons against parting with it: but, perhaps, it is no very difficult matter to demonstrate, not only that we are at prodigious expence without adequate advantage; but that, on a fair balance, we are not gainers even in glory.

The greater part of what can be offered concerning the impropriety of retaining Gibraltar, has been pointed out to the public by other writers. I shall, however, just state, as briefly as I can, those arguments which have struck me as most forcible.

First then of the expence,—Gibraltar has been in our possession since the year 1704. The annual cost, during the late war, has been computed

puted at \* £. 500,000. In peace it is much less. To obtain sufficient information for estimating the expence of every particular year, is perhaps not possible. The sums I have assumed are, however, so moderate, that I believe every one will agree they are considerably less than the truth. Allowing for the first forty years £. 140,000 per annum, and from the year 1744 to the present year £. 220,000 per annum, for the whole expence of the troops, fortifications, provisions, ordnance stores, transport service, &c. and reckoning the interest of money at  $3\frac{1}{4}$  per cent. which is under the average rate of interest our debts have borne during that time, it will be found that Gibraltar, from the time of its being taken in 1704, to the present time, has occasioned above 70 millions of our national debt. For if the sums above stated had been applied, in the manner of a sinking fund, to the redemption of our debts, we should have been £. 70,577,000 less in debt than we are at present.

In return for this expence, what advantages have we reaped? Trade, Gibraltar itself has none, except for poultry and cattle from the Barbary coast for their own consumption. In time of peace it is wholly useless; for our ships can be

\* The Propriety of retaining Gibraltar impartially considered, 1783.

supplied.



supplied with nothing there, which they could not get cheaper and more plentifully were it in the hands of the Spaniards; and in time of war it has been little or no protection to our merchant ships, except those immediately under their guns.

Gibraltar has been called the key of the Mediterranean, as if the African coast was within reach of cannon-shot; whereas the distance across is seven leagues. To whatever nation Gibraltar belongs, those only can command the entrance of the Mediterranean, who have the strongest fleet there: this was sufficiently experienced in the last war. If anchorage is wanted, there is Tangier Bay, or, in westerly winds, Tetuan: but if we were at war with any other nation, and not with the Spaniards, Gibraltar would be nearly of as much use to our shipping as at present.

One of the greatest disadvantages of our keeping Gibraltar is, that it has constantly disposed the Spaniards to be our enemies, and has probably been the occasion of their joining the French in our late quarrels, more than any compact or relationship. For let us suppose Dover, or any place in Great Britain, taken from us and retained by the Spaniards, would it not be a perpetual mortification, and a cause of unceasing indignation and anger, to every British subject?

subject? And are we to believe the Spaniards less proud or less vindictive than ourselves? Were Gibraltar restored in exchange to the Spaniards, and their claims on Jamaica made part of that exchange, I do not see any reasonable motive of war that would remain between the two nations\*. Our situations are so remote, and our interests so little connected, that, without the causes of aggravation just recited, a war with them seems unnatural and absurd: for, notwithstanding their alliance with France, they cannot be ignorant how much more reason they have to be jealous of the French power than of ours.

The importance of Gibraltar, during the late war, depended almost wholly upon the circumstance of its being besieged, and thereby occasioning a great diversion of the enemy's forces. It must not be forgot, on the other hand, '† that the necessity of relieving Gibraltar cramped all our other operations;' that the relief of it required a great portion of our own strength; besides that some thousands of our best men

\* The author of the Observer, who has had opportunities of becoming acquainted with the dispositions of the Spaniards, describes them to be well affected towards the English. And Mr. Howard, on Prisons, gives an account of 509 prisoners of war, in November 1779, at Liverpool, all French, except 56 Spaniards, who were kept separate, on account of the animosities between the two nations.

† Propriety, &c. considered.

were, and must ever, whilst we continue to keep possession, be employed to defend it, whether besieged or not. If in another war they should be prudent enough not to attempt what they have so often failed in, the whole expence, both in men and money, will be ours, without the advantage of its being the smallest diversion to the enemy's force.

In the late siege of Gibraltar, though the French assisted, it is not to be supposed they would in reality have rejoiced if the Spaniards had taken it; for such a cause of contention between us and the Spaniards removed, might, in future, deprive them of their best ally.

As to glory, much has been undoubtedly derived to this kingdom from the brave and well-conducted defence of that place; but I think that fully set off by our fleets having been obliged to leave the seas to superior fleets of the enemies; and this doubtless would not have been the case, without the Spaniards having joined the French. In future, the fleets of France and Spain, if combined, will in all probability have at least the same superiority; but we can by no means be sure that Gibraltar will ever again be so honourably defended.

It has frequently been wished by ministers to part with Gibraltar; but the false value it has been held in by the nation at large, has deterred

red them from relinquishing it, lest those in opposition to government should take advantage of the public prejudice. When Tangier belonged to us, the maintenance of its garrison cost the nation about £. 60,000 a year; this, with the additional expence of fortifications, &c. was thought so great a burthen, that, after a few years possession, we were wise enough to destroy the works and abandon the place; though equally well situated for commanding the entrance into the Mediterranean as Gibraltar.

Thus have I endeavoured to make appear, that had we not been at the expence of maintaining Gibraltar, we might have avoided at least 70 millions of our debt, independent of money expended in wars it may have occasioned with Spain;—that it has been the cause of our fleets being chased into port by superior force;—and that in all probability the keeping it will be productive of similar events hereafter. How reasonably these conjectures may be founded, is a subject well worthy the most serious consideration.

Another circumstance which, I apprehend, has not all the weight it deserves, is the expence of blood. This consideration, of itself, ought to be sufficient to determine us no longer to persevere in retaining so useless an acquisition. It is equally unwise and inhumane to

F perpetuate

perpetuate unnecessary causes of war; what name then shall be given to that policy which for this, has sacrificed above two millions annually of our future revenue?

The present and future annual expence of a garrison at Gibraltar, with the ordnance stores, provisions, repairs, new works, transport service, and all the etceteras depending, will be found greatly beyond what has been here stated. Let us suppose, that in the next 30 years, there will be 20 years of peace and 10 years of war: To maintain Gibraltar will, in that time, cost government a sum equal to the building 40 line of battle ships, and to defraying the charge of their being manned, and employed in actual service, during the 10 years of war. What advantages do we expect from Gibraltar, equivalent to such a waste of strength?—What advantages have we hitherto experienced? In return for the many millions already expended, what other effect has been produced, than that of mortifying and irritating the Spaniards? which, it is to be hoped, was not among the ends proposed by keeping it.

The kingdoms of Europe, from jealousy or emulation, keep up, even in time of peace, establishments sufficient to ruin themselves: increasing the misery of their inhabitants, who are oppressed with loads of taxes, and mutually



making each other poor, without obtaining that security which is, or ought to be, the sole purpose intended. How much happier were it for the whole, that a general council should determine the number of ships and forces that each nation should be allowed to keep in time of peace? when, instead of building against each other, half those now in being might be broke up, and all nations universally benefited. But this, however to be wished, can never be expected.

The general distrust that different nations have of each other, is unfortunately too justly founded: and the more reason there is for mutual distrust, the more deservedly do they suffer the evils it occasions. The folly of artifice and finesse is no where more manifest than in the ambition of over-reaching in negotiations. All treaties ought to be so framed that it should become the interest of both parties to abide by its regulations, otherwise no agreement can be permanent; as that party whose interest is not sufficiently attended to, generally takes the first convenient opportunity of breaking or evading the articles agreed to: and thus, by the bad policy of superior cunning, the foundation of a fresh war is frequently laid in the very act of making peace; and, during the peace, many of  
its

its benefits sacrificed to the jealousy which a hard bargain occasions.

To return from this digression :—The result then of all the arguments and schemes that have been reasonably proposed, towards retrieving our affairs, is,

First, and of the greatest consequence, To endeavour by every means, not discreditable, to preserve the continuance of peace.

Secondly, and next in effect, *Œ*economy.

Thirdly, A sinking fund, supported by a clear annual surplus, and not by loans.

Fourthly, To take advantage of all opportunities to lower the interest of our debts, when it can with propriety be done.

Fifthly, To avoid new loans, if possible; but, if they must be, to create new funds that shall be more than sufficient to pay the interest.

Lastly, and to give efficacy to the whole, *For a reasonable equivalent, RESTORE GIBRALTAR.*

F I N I S.

